

FOR PUBLICATION

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF NEW JERSEY**

In the Matter of : Case No. 09-36729/JHW

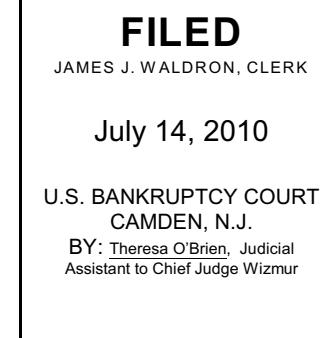
Jeremiah Joseph Cook, Jr. :

Debtor : **AMENDED OPINION**

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Before the court for resolution is a motion by the Chapter 7 debtor seeking to reclassify a wholly unsecured second mortgage on his principal residence from a secured claim to an unsecured claim pursuant to 11 U.S.C. §§ 506(a) and 506(d). Citing to the United States Supreme Court's decision in Nobelman and the Third Circuit's opinion in McDonald, the debtor contends that in the Third Circuit, "stripping off" a wholly unsecured lien must be distinguished from the "strip down" prohibited in Chapter 7 cases by the Supreme Court case of Dewsnup, and is therefore a permissible reclassification

of the mortgagee's claim.<sup>1</sup> The mortgagee disagrees, contending that a "strip off" and a "strip down" are essentially indistinguishable and therefore equally prohibited. This court concludes that the dictates of Dewsnup do not permit the voiding of a lien under § 506(d) in a Chapter 7 case where the claim is wholly unsecured. The debtor's motion to "reclassify" the second mortgagee's wholly unsecured claim, or to void the mortgagee's lien, must be denied.

### **FACTS**

The debtor, Jeremiah Joseph Cook, Jr., filed a voluntary petition for relief under Chapter 7 of the Bankruptcy Code on October 7, 2009. The debtor listed his principal residence as 14 Fredrick Boulevard, Woolwich Township, Swedesboro, in Gloucester County, New Jersey, with a fair market value of \$364,000.00. The property is subject to two mortgages, both held by Indymac Mortgages Services. The first mortgage is in the amount of \$366,216.19 and the second is in the amount of \$89,061.96. Debtor's Statement of Intention indicates that he intends to continue to make payments toward the first mortgage and that he seeks to avoid the second mortgage pursuant to 11

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<sup>1</sup> While the debtor's motion is styled as a motion to reclassify the debt from secured to unsecured status, it appears that the debtor actually seeks to deem the mortgagee's lien as void under § 506(d).

U.S.C. § 522(f).<sup>2</sup> A Report of No Distribution was filed by the Chapter 7 trustee on November 17, 2009.

On November 12, 2009, the debtor moved to reclassify the second mortgage held by Indymac Bank FSB<sup>3</sup> from a secured claim to an unsecured claim. The debtor presented an appraisal report which asserted an appraised value of \$364,000 for his home as of September 18, 2009, contending that the value of the house is less than the amount due on the first mortgage, that there is no value to support the second mortgage, and that therefore, the second mortgage may be avoided under 11 U.S.C. § 506(d). Indymac objected, presenting a competing property appraisal asserting a value of \$374,000 for the property. As well, Indymac argued that the majority of courts considering the issue have concluded that even claims collateralized by property that has no value to support the junior lien cannot be reclassified. See, e.g., In re Talbert, 344 F.3d 555 (6<sup>th</sup> Cir. 2003) and Ryan v. Homecomings Financial Network, 253 F.3d 778 (4<sup>th</sup> Cir. 2001).

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<sup>2</sup> 11 U.S.C. § 522(f), pertaining to the avoidance of judicial liens and nonpossessory, nonpurchase-money security interests in various types of property, does not apply to the avoidance of a real estate mortgage.

<sup>3</sup> Indymac Bank FSB serves on the loan as servicer for Deutsche Bank National Trust Company as trustee of the Home Equity Mortgage Loan Asset-Backed Trust, Series Inds 2006-1, Home Equity Mortgage Loan Asset-Backed Certificates, Series Inds 2006-1 under a Pooling and Servicing Agreement dated April 1, 2006.

Resolution of the competing valuations offered for the debtor's principal residence was carried pending a determination of the debtor's opportunity to avoid the mortgagee's lien, assuming that the Indymac's junior lien claim is wholly unsecured under a § 506(a) analysis.

## **DISCUSSION**

The relevant portions of the applicable statutes that govern this issue, 11 U.S.C. § 506(a)(1) and (d), provide as follows:

(a)(1) An allowed claim of a creditor secured by a lien on property in which the estate has an interest, or that is subject to setoff under section 553 of this title, is a secured claim to the extent of the value of such creditor's interest in the estate's interest in such property, or to the extent of the amount subject to setoff, as the case may be, and is an unsecured claim to the extent that the value of such creditor's interest or the amount so subject to setoff is less than the amount of such allowed claim. Such value shall be determined in light of the purpose of the valuation and of the proposed disposition or use of such property, and in conjunction with any hearing on such disposition or use or on a plan affecting such creditor's interest . . .

(d) To the extent that a lien secures a claim against the debtor that is not an allowed secured claim, such lien is void, unless-

(1) such claim was disallowed only under section 502(b)(5) or 502(e) of this title; or

(2) such claim is not an allowed secured claim due only to the failure of any entity to file a proof of such claim under section 501 of this title.

Under § 506(a)(1), a claim is bifurcated into two parts. The claim is secured to the extent of the value of the creditor's interest in the property, and unsecured to the extent that the amount of the claim exceeds the value of the creditor's interest in the property. Section 506(d) provides for a mechanism to avoid a lien that secures a claim that is not an allowed secured claim.

To resolve the issue presented, we will first review two Supreme Court cases critical to the issue, including Dewsnup v. Timm, 502 U.S. 410, 112 S. Ct. 773, 116 L.Ed.2d 903 (1992) and Nobelman v. American Savings Bank, 508 U.S. 324, 113 S. Ct. 2106, 124 L.Ed.2d 228 (1993). We will then canvass cases decided after Dewsnup on this issue, followed by an examination of the debtor's arguments, which focus particularly on the Third Circuit case of In re McDonald, 205 F.3d 606 (3d Cir.), cert. denied, 531 U.S. 822, 121 S. Ct. 66, 148 L.Ed.2d 31 (2000), and its import here.

I. Supreme Court Cases.

A. Dewsnup v. Timm.

In Dewsnup, the debtor sought to avoid the unsecured portion of a mortgagee's lien. Citing to § 506(a), the debtor claimed that the creditor held an "allowed secured claim" only "to the extent of the judicially determined value of their collateral." Id. at 413, 112 S. Ct. at 776. The value of the property was determined at trial to be \$39,000, while the debt was approximately \$120,000. The debtor contended that § 506(a) served to bifurcate the mortgagee's claim into a secured portion in the amount of \$39,000 and an unsecured portion in the amount of \$81,000. Reading sections 506(a) and 506(d) as "complementary" provisions, the debtor sought to "strip down" the mortgagee's lien to the value of its secured claim as determined under § 506(a).

In response, the creditor maintained that the application of § 506(d) should not be "rigidly tied" to § 506(a) and "that the words 'allowed secured claim' in § 506(d) need not be read as an indivisible term of art defined by reference to § 506(a), which by its terms is not a definitional provision." Id. at 415, 112 S. Ct. at 777. Instead, the respondent asserted that "the words should be read term-by-term to refer to any claim that is, first, allowed, and, second, secured." Id. Since the claim had been "allowed" as provided in § 502, and it was "secured by a lien with recourse to the underlying collateral," § 506(d) could not be used to avoid the lien. Id. To bolster its argument, the

creditor referenced the pre-Code understanding that liens passed through bankruptcy unaffected, noting that there was “nothing in the Code’s legislative history that reflects any intent to alter that law.” Id. at 416, 112 S. Ct. at 777. Moreover, the creditor contended that the fresh start policy only applies with respect to the debtor’s personal liability, not to in rem liability.

Writing for the Court, Justice Blackmun began by citing the opposing interpretations of § 506(d) as evidence that there was ambiguity in the application of § 506. The Court noted that if they were “writing on a clean slate,” they might have agreed that the term “allowed secured claim” should have the same meaning in both section 506(a) and 506(d). Id. at 417, 112 S. Ct. at 778. However, because of the stated ambiguity, the Court declined to “depart from the pre-Code rule that liens pass through bankruptcy unaffected.” Id. The Court held that § 506(d) does not allow the debtor to “strip down” the mortgagee’s lien, “because [the mortgagee’s] claim is secured by a lien and has been fully allowed pursuant to § 502.” Id.

The Court expressed concern that the debtor’s interpretation of § 506, requiring bifurcation of the mortgagee’s claim under § 506(a), would “freeze” the mortgagee’s claim at a set value, allowing any increase in the value of the property to inure to the benefit of the debtor. In effect, this interpretation of §

506 could result in a “windfall” to the debtor, at the expense of the mortgagee.

The Court believed that the better result would be to leave the lien on the property undisturbed until payment or foreclosure. The Court reasoned that “[t]hat is what was bargained for by the mortgagor and the mortgagee. . . .

Any increase over the judicially determined valuation during bankruptcy rightly accrues to the benefit of the creditor, not to the benefit of the debtor and not to the benefit of other unsecured creditors whose claims have been allowed and who had nothing to do with the mortgagor-mortgagee bargain.”

Id. The Court noted that this would be the result outside of bankruptcy and they saw “no reason why [the mortgagee’s] acquiescence in [the bankruptcy] proceeding should cause him to experience a forfeiture of the kind the debtor proposes.” Id. at 418, 112 S. Ct. at 778. The Court remarked that “[i]t is true that [the creditor’s] participation in the bankruptcy results in his having the benefit of an allowed unsecured claim as well as his allowed secured claim, but that does not strike us as proper recompense for what petitioner proposes by way of the elimination of the remainder of the lien.” Id.

Other than reorganization proceedings, the Court found that “no provision of the pre-Code statute permitted involuntary reduction of the amount of a creditor’s lien for any reason other than payment on the debt.” Id. at 418-19, 112 S. Ct. at 779. Recognizing that under the Bankruptcy Act,

liens passed through bankruptcy unaffected, the Court declined to grant what it characterized as a “broad new remedy against allowed claims” absent “the new remedy’s being mentioned somewhere in the Code itself or in the annals of Congress.” Id. at 420, 112 S. Ct. at 779.

Dewsnup thus draws a distinction between an “allowed secured claim” for purposes of § 506(a) and an “allowed secured claim” as used in § 506(d). See In re Hernandez, 175 B.R. 962, 964 (N.D.Ill. 1994) (“In Dewsnup, . . . the Supreme Court decided that the phrase ‘allowed secured claim’ in Section 506(d) meant a claim which was both allowed and secured, regardless of the extent of the security.”); In re Cunningham, 246 B.R. 241, 245 (Bankr. D.Md. 2000) (“By concluding that ‘secured claim’ merely refers to a claim secured by a lien, the Court effectively negated any argument that ‘allowed secured claim’ means the same in § 506(d) as in § 506(a.”). A claim is secured for purposes of § 506(a) to the extent of the value of the associated collateral. Under Dewsnup, an allowed claim is secured for purposes of § 506(d) simply because the claim is subject to a lien with recourse to collateral. Valuation is not a factor in the determination.

B. Nobelman v. American Savings Bank.

The year following the Dewsnup decision, the Supreme Court, in Nobelman v. American Savings Bank, 508 U.S. 324, 113 S. Ct. 2106, 124 L.Ed.2d 228 (1993), revisited the issue of lien modification, this time in a Chapter 13 case. In Nobelman, the Chapter 13 debtors sought to apply § 506(a) to bifurcate an undersecured claim on their principal residence. The mortgagee filed a proof of claim in the amount of \$71,335, while the value of the debtors' residence was acknowledged to be only \$23,000. The debtors proposed to divide the mortgagee's claim into a secured portion in the amount of \$23,000, representing the fair market value of the property, and an unsecured portion of \$48,335. The debtors' modified Chapter 13 plan proposed to cure the mortgage arrearage and to make payments toward the "secured" portion of the bank's claim, while paying a zero dividend to unsecured creditors, which included the bifurcated "unsecured" portion of the bank's claim. Id. at 326, 113 S. Ct. at 2108-09. The debtors asserted that the anti-modification provision in § 1322(b)(2) applied only to secured claims held by the mortgagee against the debtor's principal residence, and that by bifurcating the mortgagee's claim, the debtors' plan did not propose to modify the secured portion of the claim.

Justice Thomas, writing for a unanimous court, acknowledged that the debtors "were correct in looking to § 506(a) for a judicial valuation of collateral

to determine the status of the bank's secured claim." Id. at 328, 113 S. Ct. at 2110. However, the Court determined that under § 1322(b)(2), which provides in pertinent part that a Chapter 13 plan may "modify the rights of holders of secured claims, other than a claim secured by a security interest in real property that is the debtor's principal residence" 11 U.S.C. §1322(b)(2), the modification of an undersecured claim against a debtor's principal residence is proscribed. Justice Thomas suggested that if the anti-modification provision stated that "a plan may modify 'claims' or that the plan may not modify 'a claim secured only by' a home mortgage", Nobelman, 508 U.S. at 328, 113 S. Ct. At 2110, then resort to § 506(a) to determine the amount of the claim might be required. But because the provision focuses on the modification of the "rights of holders" of secured claims, as long as the mortgagee is a "holder" of a "secured claim", determined on the basis that the debtor's home retains some value as collateral, the mortgagee's "rights", as reflected in the mortgage contract between the mortgagee and the debtors, are protected from modification.

To conclude that an undersecured claim against a debtor's principal residence may not be modified, the Court also observed that § 1322(b)(2) uses the phrase "claim secured . . . by" rather than "secured claim", thus indicating an intent "to encompass both portions of an undersecured claim." Id. at 331,

113 S. Ct. at 2111. The Court found the bank's contractual rights applied to its claim as a whole. The debtors "cannot modify the payment and interest terms for the unsecured component, as they propose to do, without also modifying the terms of the secured component." Id. The court stated:

In other words, to give effect to § 506(a)'s valuation and bifurcation of secured claims through a Chapter 13 plan in the manner petitioners propose would require a modification of the rights of the holder of the security interest. Section 1322(b)(2) prohibits such a modification where, as here, the lender's claim is secured only by a lien on the debtor's principal residence.

Id. at 332, 113 S. Ct. at 2111.

Thus, under Nobelman, if there is some value in the debtor's principal residence to which the creditor's lien can attach, the antimodification provision in § 1322(b)(2) will protect the creditor's rights. That protection extends to both the secured and the unsecured components of the creditor's claim.

To recap, in Dewsnup, a Chapter 7 liquidation case, the Supreme Court concluded that the term "allowed secured claim" in § 506(a) has a different meaning than the same phrase in § 506(d). Under § 506(d), a claim qualifies as an "allowed secured claim" if it is allowed as a claim and if the claim is

secured, in the sense that the creditor holds a security interest in the collateral. Valuation of the collateral is not an issue. The Court recognized that in a reorganization case, the result may be different. In Nobelman, a Chapter 13 reorganization case, the Court looked to § 506(a) to establish that a claim is “secured,” at least to the extent of the value of the collateral. But the Court concluded that a bifurcation between secured and unsecured claims under § 506(a) could not occur in a Chapter 13 case on a claim secured solely by the debtor’s principal residence, because the creditor’s entire claim was protected from modification under § 1322(b)(2).

## II. Post Dewsnup Cases.

Post Dewsnup, the question has arisen, as it does here, as to whether a Chapter 7 debtor could “strip off”, as opposed to “strip down”, a wholly unsecured lien pursuant to § 506(d). The majority of courts addressing the issue, led by the Fourth and Sixth Circuit Court of Appeals and the Ninth Circuit Bankruptcy Appellate Panel, concludes that there is no difference between a “strip off” and a “strip down”, and that both quests for relief are foreclosed by Dewsnup. See, e.g., In re Talbert, 344 F.3d at 555; Ryan 253 F.3d at 778; In re Laskin, 222 B.R. 872 (9<sup>th</sup> Cir. BAP 1998).

For example, in Ryan, the Chapter 7 debtors filed a complaint seeking to strip off a wholly unsecured junior lien on their principal residence. 253 F.3d at 778. They sought to distinguish Dewsnup as applying only in the context of a “strip down” of a partially secured lien. The Fourth Circuit denied relief, concluding that “[t]he reasoning in Dewsnup is not ambiguous,” 253 F.3d at 781, and that there is “no principled distinction to be made between the case sub judice [seeking to strip off a lien completely] and that decided in Dewsnup [seeking to strip down a partially secured lien].” Id. at 782. The Fourth Circuit found the reasoning in Dewsnup to be “equally relevant and convincing” in both cases, id., and “while the opinion may be the subject of scholarly criticism, it remains the law of the land.” Id. at 783 (quoting In Re Cunningham, 246 B.R. at 246). The court accepted

the fact that in many cases junior lien holders may have little or no opportunity to recover all or even a part of their unsecured claims. Nevertheless, the parties bargained for their positions with knowledge that a superior lien existed. Under this Chapter 7 proceeding, they are entitled to their lien position until foreclosure or other permissible final disposition is had.

Id.

The Sixth Circuit agreed with the Ryan decision in In re Talbert, 344 F.3d at 555, noting that the Chapter 7 debtor’s attempt to connect sections 506(a) and 506(d) to bifurcate and strip down the unsecured portion of the creditor’s

lien had been rejected by the Supreme Court in Dewsnup. Talbert identified three bases for the Dewsnup holding:

- (1) any increase in the value of the property from the date of the judicially determined valuation to the time of the foreclosure sale should accrue to the creditor;
- (2) the mortgagor and mortgagee bargained that a consensual lien would remain with the property until foreclosure; and
- (3) liens on real property survive bankruptcy unaffected.

Id. at 559 (citing Dewsnup, 502 U.S. at 417-18, 112 S. Ct. at 773). Applying these principles to an attempt to “strip off” a wholly unsecured lien, Talbert explained that:

[a]s in the case of a “strip down,” to permit a “strip off” would mark a departure from the pre-Code rule that real property liens emerge from bankruptcy unaffected. Also, as in the case of a “strip down,” a “strip off” would rob the mortgagee of the bargain it struck with the mortgagor, i.e., that the consensual lien would remain with the property until foreclosure. In fact, in Dewsnup, the Court was persuaded by the creditors’ argument that “the fresh start’ policy cannot justify an impairment of respondents’ property rights, for the fresh start does not extend to an in rem claim against property but is limited to a discharge of personal liability.” Finally, as was true in the context of “strip downs,” Chapter 7 “strip offs” also carry the risk of a “windfall” to the debtors should the value of the encumbered property increase by the time of the foreclosure sale.

Id. at 561 (citations omitted). The court concluded that it was “not at liberty to ignore the Supreme Court’s reasoning, which Congress has made no apparent

attempt to modify or correct through legislative action.” Id. All that is required is that the claim be “allowed” and “secured in the ordinary sense, that is, . . . [it] is backed up by a security interest in property, whether or not the value of the property suffices to cover the claim.” Id. (quoting In re Cater, 240 B.R. 420, 422 (M.D.Ala. 1999)).

In Laskin, the Chapter 7 debtors filed an uncontested motion to avoid a wholly unsecured second deed of trust on their home pursuant to section 506(d). In re Laskin, 222 B.R. 872 (B.A.P. 9<sup>th</sup> Cir. 1998). The bankruptcy court denied the motion and the debtors appealed. The Ninth Circuit Bankruptcy Appellate Panel distinguished the debtors’ reliance on several Chapter 13 cases, noting that for purposes of anti-modification provision relating to debtors’ homestead, § 1322(b)(2), a secured claim is established by reference to § 506(a). However, in the Chapter 7 context, a secured claim under § 506(d) is not established in the same way. Id. at 875. The court noted that “[i]n contrast to Chapter 13, where claims must be allowed or disallowed to determine what gets paid through the plan, and the would-be secured creditor whose claim is allowed only as unsecured gets paid as an unsecured creditor, the allowance of a secured claim, or determination of secured status is meaningless in a Chapter 7 where the trustee is not disposing of the putative collateral.” Id. at 876. The court explained that:

Dewsnup teaches that, unless and until there is a claims allowance process, there is no predicate for voiding a lien under § 506(d).

Absent either a disposition of the putative collateral or valuation of the secured claim for plan confirmation in Chapter 11, 12 or 13, there is simply no basis on which to avoid a lien under § 506(d).

Id. Simply put, “§ 506(d) serves the function of voiding a lien [only] when the claim it secures has not been allowed.” Id. (citing Dewsnup, 502 U.S. at 415-16, 112 S. Ct. at 773.

[W]hether the lien is wholly unsecured or merely undersecured, the reasons articulated by the Supreme Court for its holding in Dewsnup, 502 U.S. at 417, 112 S. Ct. 773—that liens pass through bankruptcy unaffected, that mortgagee and mortgagor bargained for a consensual lien which would stay with real property until foreclosure, and that any increase in value of the real property should accrue to the benefit of the creditor, not the debtor or other unsecured creditors—are equally pertinent.

Id.

A minority of cases have concluded that Dewsnup should be limited to its facts, i.e. that it only applies in the case of a partially secured claim, and that it does not control in the context of a wholly unsecured claim. See, e.g., In re Smith, 247 B.R. 191 (W.D.Va. 2000), aff’d, 1 Fed.Appx. 178 (4<sup>th</sup> Cir.), cert. denied, 532 U.S. 1052, 121 S. Ct. 2194, 149 L.Ed.2d 1025 (2001); In re Yi, 219 B.R. 394 (E.D.Va. 1998); In re Lavelle, No. 09-72389-478, 2009 WL 4043089 (Bankr. E.D.N.Y. Nov. 19, 2009); In re Farha, 246 B.R. 547 (Bankr.

E.D.Mich. 2000); In re Zempel, 244 B.R. 625 (Bankr. W.D.Ky. 1999); In re Howard, 184 B.R. 644 (Bankr. E.D.N.Y.1995). For example, in In re Yi, the debtors filed an adversary complaint in their Chapter 7 case seeking to avoid a wholly unsecured third deed of trust on their property. 219 B.R. at 394. The value of the two senior deeds of trust on the property exceeded the stated value of the debtors' interest in the property, and the debtors contended that the third deed of trust was thus not an "allowed secured claim" pursuant to § 506(a) and therefore subject to avoidance under § 506(d).

The district court agreed, labeling Dewsnup as "analogous" but not "dispositive." Id. at 397. Focusing on the language of section 506(a), the court determined that because there was no value to support the creditor's claim, the claim was clearly not secured. Id. at 397-98. The court reasoned that "[w]here there is no value underlying the claim, there is not a secured claim, despite the existence of a document to the contrary." Id. at 398 (quoting Wright v. Commercial Credit Corp., 178 B.R. 703, 707 (E.D.Va.1995)). "In other words, '[t]he code does not generally classify creditors based on the existence of a piece of paper purporting to give a creditor rights in specified collateral, but rather on whether a creditor actually holds a claim supported by valuable estate property.'" Id. (quoting In re Hornes, 160 B.R. 709, 715 (Bankr. D.Conn. 1993)).

Yi distinguished Nobelman's conclusion that a "claim . . . secured by a lien" includes both the secured and unsecured portions of the claim on the ground that in Nobelman, the bank was partially secured. Otherwise, "that phrase cannot logically be understood to include a lien that has no secured portion." Id. at 399. The court concluded that the Code clearly intended to treat undersecured and wholly unsecured claims differently. The court reasoned that if the policies identified in Dewsnup that liens pass through bankruptcy unaffected were strictly applied, "§ 506(d) would be read out of the statute; a lien would never be avoided, even if the full value of the lien exceeded the unsecured value of the property." Id. at 400 (emphasis in original).

It should be noted that the lower court decisions in Yi and Smith were superseded by the Fourth Circuit's decision in Ryan, and the Farha and Zempel cases were superseded by the Sixth Circuit's more recent decision in Talbert. Nevertheless, the minority cases opining that sections 506(a) and (d) must be read together, and concluding that in a Chapter 7 case, junior liens with no value underlying the claim may be avoided under § 506(d), are premised on sound principles of statutory interpretation, and would be controlling here if we were writing on a clean slate. We are not. The Dewsnup decision disregarded valuation considerations in assessing whether a claim

constituted an “allowed secured claim” that may be avoided under § 506(d), “effectively negat[ing] any argument that ‘allowed secured claim’ means the same in § 506(d) as in § 506(a)”. Cunningham, 246 at 245. As the Fourth and Sixth Circuits and the Ninth BAP Circuit have concluded, there is no principled way to reconcile Dewsnup with a “strip off” of a wholly unsecured claim under § 506(d). Ryan, 253 F.3d at 782.

### III. Debtor’s Arguments.

The debtor contends that because “stripping off” and “stripping down” are not only different in degree, but also different in kind, Dewsnup should not bar the voiding of a lien where the junior lien is wholly unsecured under a § 506(a) analysis. The debtor cites to the Third Circuit decision in In re McDonald, 205 F.3d 606 (3d Cir.), cert. denied, 531 U.S. 822, 121 S. Ct. 66, 148 L.Ed.2d 31 (2000), in which Chapter 13 debtors were permitted to modify a wholly unsecured mortgagee’s claim by treating the entire amount due on the junior mortgage as unsecured, avoiding the associated lien, and paying a de minimis or zero dividend to the unsecured creditors in their proposed Chapter 13 plan. All six courts of appeal to address the question have concluded that the anti-modification protection afforded by § 1322(b)(2) to claims secured by the debtor’s homestead does not extend to wholly

unsecured claims. See, e.g., In re Zimmer, 313 F.3d 1220 (9<sup>th</sup> Cir. 2002); In re Lane, 280 F.3d 663 (6<sup>th</sup> Cir. 2002); In re Pond, 252 F.3d 122 (2d Cir. 2001); In re Tanner, 217 F.3d 1357 (11<sup>th</sup> Cir. 2000); In re Bartee, 212 F.3d 277 (5<sup>th</sup> Cir. 2000). The debtor contends that the rationale of the McDonald case would be inconsistent with a ruling by a Third Circuit bankruptcy court that would designate a claim that is wholly unsecured under a § 506(a) analysis as an “allowed secured claim” that could not be avoided under § 506(d).

In In re McDonald, the court started from the premise that § 506(a) applies in Chapter 13 cases to separate allowed claims into secured and unsecured claims. 205 F.3d at 609. The court reflected that while Nobelman held that partially unsecured claims, secured only by an interest in real property, could not be modified, the Nobelman court recognized that § 506(a) must be consulted in the first instance to determine whether a claim is secured or unsecured. The McDonald court reasoned that “[o]nce we accept that courts must apply § 506(a), then it follows, even under Nobelman, that a wholly unsecured mortgage holder does not have a secured claim.” Id. at 611. “Justice Thomas specifically said that the bank in Nobelman had a secured claim ‘because’ the bank’s lien still attached to some existing value in the debtor’s house.” Id. As the Third Circuit explained, “[i]f a mortgage holder’s claim is wholly unsecured, then after the valuation that Justice Thomas said

that debtors could seek under § 506(a), the bank is not in any respect a holder of a claim secured by the debtor's residence." Id. at 612. "The bank simply has an unsecured claim and the antimodification clause does not apply." Id.

Similarly, the Fifth Circuit Court of Appeals, in In re Bartee, noted that "[i]f it is correct to 'look[ ] to § 506(a) for a judicial valuation of the collateral to determine the status of the bank's secured claim,' then it stands to reason that valuation will control the determination of the mortgagee's security interest—i.e., whether it is a secured or unsecured claim." 212 F.3d at 290. "In the case of a wholly undersecured junior mortgage, the valuation function of § 506(a) obviates the need to even consult § 1322(b)(2)." Id. "Without an allowed secured claim, a creditor cannot invoke § 1322(b)(2)." Id.

The debtor's argument that Nobelman and McDonald compel the conclusion that a lien may be voided in a Chapter 7 case under § 506(d) where the lien does not attach to some existing value in the collateral must be rejected. The opportunity to void a lien on a wholly unsecured claim depends upon whether the debtor's case is filed under Chapter 7 or Chapter 13. In the Chapter 13 context, Nobelman requires resort to § 506(a) to determine whether a junior lienholder holds a secured claim for purposes of § 1322(b)(2). In the Chapter 7 context, Dewsnup held that the definition of an "allowed secured

claim" for purposes of § 506(d) was independent of the § 506(a) determination. Thus, the fact that there is no value in the collateral to reach the claim is irrelevant. For purposes of lien avoidance under § 506(d), the court may consider only if the claim is allowed, and then whether it is secured, in the sense that the creditor has recourse to the underlying collateral. Here, the lien sought to be avoided is both an allowed claim, and is secured by the debtor's property. The relief sought by the debtor must be rejected.

**CONCLUSION**

The debtor's motion to modify and avoid the creditor's lien is denied. Counsel for respondent shall submit an order in conformance herewith.

Dated: July 14, 2010

  
JUDITH H. WIZMUR  
CHIEF JUDGE  
U.S. BANKRUPTCY COURT